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Colombia

Sugar

Annual

2006

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Report Highlights:
Increased production and use of ethanol for fuel is expected to reduce Colombian sugar production and exports in 2005/06 and in future years. The mandate to use ethanol for fuel was implemented in September 2005. Exports are expected to fall by 341,000 tons this year (80,000 tons more than previous estimates). The U.S. and Colombia reached agreement on a free trade agreement in February 2006.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Bogota [CO1]
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Executive Summary

Colombia and the U.S. reached agreement for a free trade agreement on February 27 that will open significant new access for U.S. sugar containing products. The details of the agreement have not yet been published. Additional information will be placed on the web page of USTR (www.ustr.gov) when it is available to the public. No date has been set for when the agreement will come into force, although the target is to implement the agreement during 2007.

Colombia's sugar production will decline by approximately 323,000 tons to 2.39 million tons in marketing year 2006/06 due to the new use of sugarcane for ethanol production, and will show a further decline of 30.000 tons in 2006/07 when ethanol production reaches full capacity. Currently ethanol production supplies the cities at the central and southern part of the country that covers 70 percent of the nationwide demand, under a requirement implemented in 2005 to use 10% ethanol in gasoline in the major cities.

Sugar exports will fall as less sugar is produced due to the switch from raw sugar exports to ethanol production, since the domestic prices are generally higher that international prices. Exports are forecast to decrease by 341,000 tons to 890,000 tons in 2005/06 marketing year.

Sugar consumption continues growing, although at a slow pace as a result of the tight sugar supplies and rising prices of sugar containing products on the local market. Consumption is expected to grow to 1.53 million tons in 2005/2006 year, and will continue growing at a slow rate in the following marketing year.

The Andean Community-Mercosur free trade agreement was implemented starting in February 2005. Sugar and sugar containing products were "encapsulated" in the agreement, which means that sugar is excluded from duty reductions until there is mutual agreement at a later date to include sugar in the agreement. Colombia will continue granting to Mercosur countries the duty preferences agreed under previous bilateral agreements.

Although the Colombian Government continues to support sugar producers, currently there are no policy measures in place to restrict imports. Imports are subject to variable duties under the Andean Community price band system that protect sugar producers when prices are low, however, the current high international prices have resulted in the sugar duty under the price band system falling to zero since November 2005 for raw sugar and since January 2006 for refined sugar.

Production

For marketing year 2005/06, sugar production is expected to fall by approximately 323,000 tons to 2.39 million tons due to the new use of sugarcane for ethanol production. Production is forecast to decrease another 30.000 tons in 2006/07 when ethanol production is close to full capacity. The Colombian Government requirement that ethanol be mixed with gasoline in the major cities started in September 2005. Private sector plants, owned by sugar processors, are currently supplying the cities at the central and southern part of the country.

Colombia's sugar production reached 2.713 million tons in marketing year 2004/2005. The production is 33,000 ton higher than the previous year due mainly to increased production efficiency and good weather conditions. The sugar agro-industry of the Valle del Cauca has a program for constant development of new technologies to improve efficiency. This is the main source of gains in production given that there is no area for new plantings in the sugar-producing region at the Cauca Valley. Production 2005/06 year is expected to decline by

323,000 tons due to ethanol plants entering in production and a further decrease of 30,000 tons is expected during the 2006/07 marketing year.

Sugar producers have increased their plant capacity for refining sugar to substitute for exports and local sales of raw sugar. Refined sugar has a higher price on the international and local market (See trade section below).

There are five ethanol plants located in the sugar cane area next to sugar mills, which supply energy to the ethanol facilities. Current ethanol production capacity is 1.1 million liters per day. The current ethanol production supplies an estimated 70 percent of the total needs to comply with the requirement to mix 10 % ethanol with gasoline. The remaining 30 percent will be mostly covered by a new ethanol plant located in a panela production area in the Santander department at the northeast of Colombia, which is planned to enter into production in late 2007.

The area harvested for **non-centrifugal sugar (panela)** is calculated at 225,000 hectares, which are processed by 20,000 peasant facilities located throughout the country. Production of panela is projected to reach 1.35 million tons during 2006, although the disperse nature of the industry makes it very difficult to have exact numbers on panela production (the figures for sugar production are much more reliable).

The new requirements for use of ethanol are having a major impact on domestic sugar production and exports. Sugar cane needed for this purpose could reach the equivalent of half what is currently used for exports (for a total equivalent to 650,000 tons of sugar). The use of sugar cane for ethanol is expected to provide higher and more stable prices than exports of sugar at the world market price. While other regions are looking at producing sugar cane for ethanol production, the main sugar region in the Cauca Valley is expected to be the main producer of ethanol due the infrastructure already in place and economies of scale.

Consumption

Consumption is expected to reach 1.53 million tons in 2005/06, slightly above a year before. Despite the economic expansion, consumption is expected to increase by half percent in the following year due to high domestic prices.

Sales to the local food industry, in which some sugar producers have also investments, continue gaining share of local consumption. Sugar producers continue to focus their marketing efforts on exports and local consumption of value added sugar containing products.

Trade

Sugarcane Exports

Colombian exports of sugarcane in 2004/05 marketing year reached 74,094 tons, 19 percent higher than 2003/04 when exports were 62,438 tons. All sugarcane exports originate in the growing areas located near the Venezuelan border. Part of Colombia's sugarcane produced in this area is used locally for panela (non-centrifugal sugar) and the balance is exported to a Colombian-owned mill in Venezuela. No other sugar mills exist in the area.

Centrifugal Sugar Exports

Colombian sugar exports are expected to strongly decline by 28 percent to 890,000 metric tons in 2005/06 marketing year, and an additional reduction of 30,000 tons to 860,000 tons is expected during the 2006/07 year. The strong decline in exports for the 2005/06 marketing year is due to the effect of ethanol plants entered into production. The reduction calculated at 341000 tons in 2005/06 year is the amount of sugar needed to produce 1.1 million liters a day.

The reduction in sugar exports will reduce exports of raw sugar, which are lower priced on the international market than refined sugar. The industry is increasing its sugar refining capacity to take advantage of the higher price.

In 2004/05 MY, Peru was the top destination for Colombian's exports that reached 172,459 tons and share a 14 percent of total exports followed by Haiti and Chile with 148,533 tons, and 130,998 tons respectively. The United States bought 119,893 tons, a 9.7 percent share, and was the fourth destination for exports from Colombia in 2005. Most of this was sold outside the sugar tariff-rate quota (see below) for processing and re-export. The ranking of country destinations for Colombia's sugar exports varies from one year to another due to sugar exporters looking mainly for the best prices.

Colombian panela (non-centrifugal sugar) exports are relatively small and erratic in volume from year to year. Colombia exported 4,225 tons of panela in 2004/05 MY, 26 percent less than the previous year. The main buyer for Colombian panela was the U.S., which took 41 percent of all panela exports followed by Venezuela with 39 percent. Most of this product is sold in the U.S. to the immigrant community.

The U.S. Sugar Tariff-Rate Quota

The U.S. sugar tariff-rate quota for Colombian exports was fixed at 43,121 tons for the October 2005-September 2006 fiscal year, an increase of 71 percent from a year before. This represents 4.8 percent of the total sugar exports projected for this marketing year. While relatively small, the industry considers it important given its profitability.

The quota is assigned to exporters through the Ministry of Foreign Trade, who issues the sugar quota certificates. Traditionally, large sugar mills obtain 80 percent of the quota, and panela producers the remaining 20 percent. Sugar exports outside of the tariff-rate quota are made at world prices.

Sugar Imports

Colombia has imported small amounts of sugar since 1991, however, this increased rapidly from 13,000 tons in 2000 to 105,000 tons in 2003. This trend stopped in 2004 when sugar imports declined to 36,000 tons after the government imposed restrictions on imports from other Andean Community countries. The total sugar imported during 2004/05 MY amounted 24,842 tons and the main source was Brazil, which supplied 17,062 tons (69%) of sugar imports, while Bolivia provided 23% and Ecuador 7.3%. Those three countries have traditionally been the Colombia's suppliers of sugar.

Currently there are no special requirements in place for imports such as discretionary import licensing or import quotas. The import restrictions applied to Andean imports expired in June 4, 2005. Since the international demand is strong and the international prices high, there is no incentive to restrict imports.

Stocks

Sugar stocks are projected to decline to 79,000 tons in the 2005/06 marketing year, from 84,000 tons in 2004/05. For 2006/07, stocks are expected to decline to 69,000 tons due to ethanol production. Stock figures are estimates by our office based on information gathered from local contacts. The government and industry do not publish the amount of stocks held in Colombia.

Policy

Production

The Government of Colombia issued Decree 2908 on October 14, 2003 exempting new sugar cane planted areas from taxes for the next 14 years. Sugarcane production receives credit from Colombia's official financial institution for the agrarian sector (FINAGRO), which subsidizes the credit by forgiving up to 40 percent of the principal. The credit subsidy depends on the size of the company and if it is a cooperative or private producer.

Sugar Price Stabilization Fund

The price stabilization fund applies a levy to domestic sales in order to finance export payments for surplus production. The fund was established under Ministry of Agriculture Decree No. 569 of 2000 (March 30) and has been in operation since January 2001.

Price Band

Under Andean Community regulations, sugar imports from other Andean Community countries are allowed duty-free entry into the Colombian market. Imports from outside the Andean Community are subject to the Andean price band system. Under the price band system, the basic duty rate on imports of raw and refined sugar from non-Andean Community countries is 20 percent. This basic duty is subject to a variable surcharge that increases the duty if imports are priced below a trigger floor price (a duty reduction is given if prices are above a ceiling price).

The Andean Community revises annual ceiling and floor prices in April. The duty adjustment is made based on whether a reference price is above or below the ceiling and floor price. The reference price is adjusted every two weeks. If the reference price falls within the floor and ceiling price band, the import duty is the basic tariff rate (applied to the invoice price). When the reference price falls below the floor price a variable levy or surcharge based upon the difference between the floor price and the reference price is assessed. Conversely, when the reference price exceeds the ceiling price, a reduction is made to the applied duty based upon the difference between the reference and the ceiling price. For the second half of March 2006, Colombia's total effective duty--basic duty plus surcharge--on imports of raw sugar and refined sugar is equivalent to 0 percent of the invoice price per ton, since the reference price currently is above the ceiling price for both raw and refined sugar. (see http://www.comunidadandina.org/comercio/franja_circular.htm).

Andean Community and Mercosur

The Andean Community and Mercosur agreement for a bilateral free trade entered in effect in February 2005. Sugar was largely excluded from this agreement, with Colombia maintaining the price band system and no agreement reached on when tariff reductions would begin. Colombia continues granting duty preferences on the basic duty under previous bilateral agreements as follows: 12% to Argentina and Brazil, 34% to Paraguay and 20 % to Uruguay.

Alcohol to be used as Fuel

In September 2001, the Colombian Government issued Law 693, which makes it mandatory to use alcohol in gasoline sold in cities with populations larger than 500,000 inhabitants and its application started in September 2005. The alcohol used in fuel is exempt from payment of the value added tax, the diesel surcharge, the global tax (also applied to diesel) and the "stamp for transportation" (a kind of tax paid for diesel transported by pipeline). According to the industry, currently 70% of the ethanol needs are supplied by the five plants in the sugar cane producing area of the Cauca Valley.

Tables

Colombia: Centrifugal Sugar, PS&D, 2004/05 – 2006/07 (1,000 tons)

Colombia							
Sugar, Centrifugal							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2004		09/2005		09/2006	MM/YYYY
Beginning Stocks	97	97	87	84	62	79	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	2720	2713	2420	2390	0	2360	(1000 MT)
TOTAL Sugar Production	2720	2713	2420	2390	0	2360	(1000 MT)
Raw Imports	5	0	5	0	0	0	(1000 MT)
Refined Imp.(Raw Val)	25	25	45	25	0	25	(1000 MT)
TOTAL Imports	30	25	50	25	0	25	(1000 MT)
TOTAL SUPPLY	2847	2835	2557	2499	62	2464	(1000 MT)
Raw Exports	640	550	460	380	0	360	(1000 MT)
Refined Exp.(Raw Val)	600	681	510	510	0	500	(1000 MT)
TOTAL EXPORTS	1240	1231	970	890	0	860	(1000 MT)
Human Dom. Consumption	1515	1515	1520	1525	0	1530	(1000 MT)
Other Disappearance	5	5	5	5	0	5	(1000 MT)
Total Disappearance	1520	1520	1525	1530	0	1535	(1000 MT)
Ending Stocks	87	84	62	79	0	69	(1000 MT)
TOTAL DISTRIBUTION	2847	2835	2557	2499	0	2464	(1000 MT)

Colombia: Exports of Centrifugal Sugar, 2004/05

Export Trade Matrix			
Colombia Sugar, Centrifugal			
Time Period	Sep/Aug	Units:	MT(0,000)
Exports for:	2005		2006
U.S.	120	U.S.	
Others		Others	
Peru	172		
Haiti	149		
Chile	131		
Venezuela	103		
Sri Lanka	94		
Russia	89		
Cuba	64		
Jamaica	41		
Yemen	41		
Bangladesh	27		
Total for Others	911		0
Others not Listed	200		
Grand Total	1231		0

Source: World Trade Atlas

Colombia: Retail Prices for Refined Sugar, 2004 –2005
(Pesos per kilogram)

Prices Table			
Colombia			
Sugar, Centrifugal			
Prices in	Col pesos	per uom	Kilogram
Year	2004	2005	% Change
Jan	1581	1558	-1%
Feb	1551	1544	0%
Mar	1525	1581	4%
Apr	1501	1553	3%
May	1499	1547	3%
Jun	1491	1499	1%
Jul	1503	1457	-3%
Aug	1503	1482	-1%
Sep	1455	1521	5%
Oct	1512	1549	2%
Nov	1511	1599	6%
Dec	1543	1603	4%
Exchange Rate	2288.67	Local Currency/US $	
Date of Quote	4/5/2006	MM/DD/YYYY	